

Coupons and Sales Tax

Many retailers accept coupons from their customers in exchange for a discount on the products they sell. This fact sheet describes the most common types of coupons and explains how tax applies to sales involving their use. For information on federal food stamp coupons, you may wish to order our publication 31, *Tax Tips for Grocery Stores* (see reverse).

Coupon quick reference

(see below and reverse for examples and more detailed information)

Sales and Use TAX FACTS

Publication 113 • LDA

For additional information you may wish to order the references discussed in this fact sheet or talk to a Board of Equalization representative. For assistance, please call 1-800-400-7115
(For the hearing-impaired:
— from TDD phone:
800-735-2929;
— from voice phone:
800-735-2922).
Internet: www.boe.ca.gov

Type of coupon	Is face value taxable?	You must apply tax to
retailer's own free coupon	no	selling price <i>after</i> deducting coupon face value
manufacturer's coupon, when manufacturer will fully reimburse retailer	yes	full selling price <i>before</i> deducting coupon face value

Free retailer coupons are considered cash discounts

You may publish or distribute your own free coupons for customers to redeem when they purchase items from you. Unless you will be reimbursed somehow for the face value of the coupon, that value is considered a cash discount when the customer redeems the coupon on a purchase.

Cash discounts are not taxable. Tax applies to the selling price of the item less the amount of the discount. Your customer invoice or receipt should show the original selling price of the item, the coupon value, and an amount for sales tax based on the selling price less the coupon value. While you must report the original selling price before the discount on your sales and use tax return, you should take a deduction for the discount on the line labeled "cash discounts on taxable sales." If you don't take the deduction you'll pay more tax than you owe.

For example, your customer may redeem your free, \$1 discount coupon when she buys a \$15.00 bag of dog food. You should apply tax based on a \$14.00 discounted selling price — the amount paid by the customer less the coupon face value. You should include the \$15.00 sale in the "total sales" on your sales and use tax return and take a \$1.00 deduction on the line for "cash discounts on taxable sales." Discounts you offer to "club card" holders are treated this same way for sales tax purposes (see our publication 31, *Tax Tips for Grocery Stores*).

Different tax rules apply if a product manufacturer will reimburse you for the value of the coupon or if you charge for the coupon (see reverse).

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Reimbursable manufacturer's coupons are taxable

Tax applies to the face value of a manufacturer's coupon redeemed for a taxable sale if the manufacturer or another party will reimburse you for the coupon's value. This is true whether the manufacturer prints the coupons or pays you to print them in your own ads. Tax does not apply to any handling allowance you receive.

For example, your customer may redeem a manufacturer's coupon that gives a \$1 discount on the purchase of merchandise that would otherwise sell for \$9. The manufacturer will pay you \$1.05 for each redeemed coupon — the face value plus a 5-cent handling allowance. You must apply tax to the full \$9 price of the item since you will receive \$8 from the customer and \$1 from the manufacturer (the 5-cent handling allowance is not taxable). You must include the \$9 selling price in the "total sales" you report on your sales and use tax return.

When a manufacturer's reimbursement is less than the face value of a coupon, tax applies to the amount you will be paid rather than the coupon face value.

Some manufacturers issue coupons that allow customers to obtain a product for free while providing full price reimbursement to the retailer. When your customer redeems this kind of coupon, tax applies to the product's full retail price. For example, your customer might use a manufacturer's coupon to buy two \$7 items for the price of one. You should apply tax to the full \$14 price for two items and you must report that amount on your sales and use tax return.

Payments to coupon redemption centers are not deductible

You may pay a coupon redemption center for handling your manufacturers' coupon redemptions for you. You cannot deduct payments to the redemption center from your total sales, even if those payments exceed the handling allowance you receive from the manufacturer.

Coupons sold by retailers are taxable when redeemed

Tax does not apply at the time you sell a coupon or gift certificate. However, when a customer redeems the coupon or certificate on a taxable sale, you will owe tax on the amount the customer pays for the merchandise *and* the amount you were paid for the coupon or gift certificate.

Double-discount coupons combine a cash discount and taxable coupon in one sale

Some retailers offer "double discounts" for manufacturer's coupons. For example, you might allow \$2 off the price of a \$10 item when a customer gives you a \$1 manufacturer's coupon. Tax applies as previously explained — the value of the reimbursable manufacturer's coupon is taxable, but your additional discount is not. In this example, you would apply tax to \$9.

Two-for-one meal coupons: tax applies to amounts you are paid

Many restaurants issue coupons that allow diners to purchase two meals for the price of one. Tax applies only to the amount the diner pays you for the purchased meal and to any related third-party payment or coupon sales income you receive. More detailed information and examples are found in publication 22, *Tax Tips for the Dining and Beverage Industry*.

For more information

You may order any of our forms, publications, and regulations from our Information Center. Selected resources are available from the Center's automated faxback service and on our Web site.

Note: The statements in this fact sheet are general and are current as of April 2000. The sales and use tax law and regulations are complex and subject to change. If there is a conflict between this publication and the law or regulations, decisions will be based on the law and regulations.